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Edited transcript of DBS fourth-quarter 2023 results media briefing, 7 February 2024

Edna Koh Welcome to DBS's fourth-quarter financial results briefing.

Sok Hui Chng Good morning.

Highlights. We achieved a record performance for full-year 2023. Net profit rose 26% to cross $10 billion for the first time. ROE climbed three percentage points to 18%, significantly above previous years. Total income rose 22% to $20.2 billion.

The commercial book drove the better performance. Net interest income grew 33% boosted by a 65-basis point expansion in net interest margin. Net fee income rebounded, up 9% on record card fees and improved wealth management product sales. Other non-interest income rose 18% as treasury customer sales reached a new high.

The strong commercial book performance more than offset a 38% decline in Treasury Markets income due to higher funding cost.

Expenses rose less quickly than income, resulting in an improved cost-income ratio. Excluding Citi Taiwan and non-recurring technology and other costs, the underlying cost-income ratio was 39%.

For the fourth quarter, net profit grew 2% from a year ago to $2.39 billion. Similar to the previous three quarters, higher commercial book income was moderated by lower Treasury Markets income.

Asset quality remained resilient. Non-performing assets declined 5% from the previous quarter, and the NPL ratio improved 0.1 percentage point to 1.1%. Specific allowances remained low at 11 basis points for both the fourth quarter and the full year. Allowance coverage was high at 128% and 226% after considering collateral.

Capital was healthy, with CET1 ratio rising to 14.6%.

The Board proposed a dividend of 54 cents per share for the fourth quarter, an increase of 6 cents from the third quarter payout. The Board also proposed a 1-for-10 bonus issue which is intended to quicken the pace of capital returns to shareholders.

In addition, we set aside $100 million from this year's profits for our recently announced corporate social responsibility commitment to allocate up to $1 billion over ten years to help vulnerable communities.

Dividend and bonus issue. The fourth-quarter dividend of 54 cents per share brings full-year 2023 dividends to $1.92 per share. This represents a 42-cent or 28% increase compared to 2022's ordinary dividend payout. Assuming dividends are held at 54 cents per quarter, annualised dividends will be $2.16 per share.

The 1-for-10 bonus issue will further boost the payout. The bonus shares will qualify for dividends starting with the first-quarter 2024 interim dividends, and 54 cents per quarter will apply to the enlarged share base, effectively raising the quarterly dividend of 54 cents by another 10%.

On an annualised basis, the post-bonus dividend would be 24% higher than 2023's payout of $1.92 per share. The dividend yield based on yesterday's closing price would be 7.5%.

Full-year performance. Full-year net profit rose 26% to a record $10.3 billion as total income grew 22% to $20.2 billion.

Commercial book income rose 27%, led by a 33% or $3.57 billion increase in net interest income to $14.3 billion, with net interest margin expanding 65 basis points to 2.76%.

Net fee income rebounded from a drop in the previous year, rising 9% or $293 million to $3.38 billion. The growth was led by cards and wealth management. Card fees grew 22% as card spending reached a new high. Wealth Management fees rose 13% as demand for bancassurance and investment products improved. The inclusion of Citi Taiwan from August further bolstered the growth in card and wealth management fees.

Other non-interest income grew 18% or $267 million to $1.79 billion as treasury customer sales reached a record led by higher sales to wealth management customers.

These gains were partially offset by lower Treasury Markets income, which fell 38% as trading was impacted by higher funding costs.

Expenses rose 14% or $966 million to $8.06 billion. Excluding Citi Taiwan and non-recurring technology and other cost, expenses rose 10% and the underlying cost- income ratio was 39%.

Profit before allowances and amortisation increased 29% to a record $12.1 billion.

Specific allowances rose $177 million from a low base to $512 million or 11 basis points of loans. General allowances of $78 million were taken compared to a $98 million write-back a year ago.

Two one-time items were recorded for the year – a corporate social responsibility contribution of $100 million and integration costs for Citi Taiwan of $124 million. Including these one-time items, net profit rose 23% to $10.1 billion.

Fourth-quarter performance. For the fourth quarter, net profit rose 2% from a year ago to $2.39 billion.

Commercial book total income grew 12% and to $4.89 billion.

Net interest income rose 7% or $232 million to $3.64 billion as net interest margin expanded 14 basis points to 2.75%.

Non-interest income growth was broad-based. Fee income rose 31% or $206 million to $867 million from increases across most fee income streams and the consolidation of Citi Taiwan. Other non-interest income rose 22% or $70 million to $390 million on higher treasury customer sales to wealth management customers.

Treasury Markets income declined 45% or $91 million to $113 million due to higher funding costs.

Expenses increased 12% or $242 million to $2.21 billion. Excluding Citi Taiwan and non-recurring technology and other costs, expenses rose 3%.

Total allowances rose from a low base. Specific allowances increased $65 million to $139 million or 11 basis points of loans. General allowances also rose as $3 million were taken compared to $116 million write-back a year ago.

Compared to the previous quarter, fourth quarter net profit was 9% lower as total income fell 4% to $5.01 billion.

Commercial book total income declined 3% due to a lower net interest margin and seasonally lower non-interest income.

Net interest income was 1% or $47 million lower from a seven-basis-point decline in net interest margin, which I will elaborate in the next slide.

Fee income rose 3% or $24 million as a higher contribution from Citi Taiwan more than offset the impact of seasonally slower wealth management activity.

Other non-interest income was 22% or $109 million lower due partly to seasonally lower treasury customer sales.

Expenses rose 8% or $167 million, mainly driven by the full-quarter impact of Citi Taiwan and non-recurring technology and other costs. Excluding these items, expenses rose 2%.

Specific allowances were $58 million lower than the previous quarter, which had included provisions for exposures linked to a money laundering case in Singapore. General allowances were also lower by $15 million.

Net interest income. Fourth-quarter commercial book net interest income rose 7% from a year ago to $3.64 billion on the back of a 14-basis-point expansion in net interest margin to 2.75% driven by higher interest rates.

Compared to the previous quarter, commercial book net interest income was 1% lower than the previous quarter. Net interest margin fell seven basis points in the fourth quarter to 2.75%, which was stable to the exit net interest margin in the third quarter. The decline was due to a full-period impact of higher deposit costs from the third quarter and the accumulation of fixed rate asset positions.

Casa outflows slowed in the fourth quarter which will reduce deposit pricing pressure in first-quarter 2024.

For the full year, commercial book net interest income rose 33% to $14.3 billion. Net interest margin increased 65 basis points to 2.76%.

Combining the commercial book and treasury markets, the Group's overall net interest income grew 25% for the full year to a record $13.6 billion, and the net interest margin climbed 40 basis points to 2.15%.

For 2024, we expect to maintain the Group's net interest income around 2023 levels with a full year contribution from Citi Taiwan.

Loans. Gross loans remained stable from the previous quarter in constant-currency terms at $422 billion. While trade loans and housing loans grew by slightly over $1 billion combined, the growth was offset by a decline in non-trade corporate loans from increased repayments due to the high interest rate environment.

Gross loans rose 1% or $6 billion from a year ago driven by the consolidation of Citi Taiwan which added $10 billion. Excluding Citi Taiwan, underlying loans fell $4 billion. The decline was mainly due to trade loans as a result of lower activity and unattractive pricing. Non-trade corporate loans were stable as a healthy level of pipeline drawdowns was offset by higher repayments. Consumer loans fell slightly as wealth management customers repaid loans in a high interest rate environment.

Deposits. Deposits grew 2% or $11 billion from the previous quarter in constant-currency terms to $535 billion as Casa and fixed deposits were both higher. Some of the growth was used to replace more expensive wholesale funding.

Deposits grew 3% or $13 billion from a year ago. Citi Taiwan contributed $12 billion, while underlying deposits were stable. Casa outflows decelerated compared to the previous year and were replaced by fixed deposits. LCR of 144% and NSFR of 118% remained well above regulatory requirements.

Fee income. Fee income growth continued to accelerate in the fourth quarter. Compared to a year ago, gross fee income rose 28% to $1.07 billion in the fourth quarter, faster than the increase of 14% in the third quarter, 9% in the second quarter and little change in the first quarter.

While Citi Taiwan contributed to fee income in the third and fourth quarters, the underlying momentum excluding Citi also accelerated, with growth of 17% in the fourth quarter and 11% in the third quarter.

Wealth management fees grew 41% from the previous year to $370 million due to higher bancassurance and investment product sales, with Citi Taiwan contributing two-thirds of the increase. Card fees rose 27% from higher customer spending as well as Citi Taiwan, which accounted for two-thirds of the increase.

Loan-related fees rose 80% from a low base to $142 million while Investment Banking fees grew 26% from higher debt capital market activities. Transaction services fees were slightly lower.

For the full year, gross fee income of $4.12 billion was led by growth in cards, wealth management and loan-related fees.

Commercial book non-interest income. Fourth-quarter commercial book non-interest income of $1.26 billion rose 28% from a year ago due to a rebound in fee income and higher treasury customer sales. It was 6% lower compared to the previous quarter partly due to seasonality.

For the full year, commercial book non-interest income rose 12% from a rebound in fees and record treasury customer sales.

The commercial book accounted for about 80% of total non-interest income in the fourth quarter and the full year.

Due to accounting asymmetry, the best way to view Treasury Markets performance is through an aggregated view of Treasury Markets net interest income and non-interest income.

Expenses. Full-year expenses rose 14% to $8.06 billion led by an increase in staff costs from salary increments and a higher headcount. The expenses included Citi Taiwan as well as non-recurring costs such as initiatives to improve technology resiliency.

Excluding Citi Taiwan and non-recurring costs, expenses rose 10% and the underlying cost-income ratio was 39%.

For the fourth quarter, expenses increased 8% from the previous quarter and 12% from a year ago to $2.21 billion. Excluding the full-quarter impact of Citi Taiwan and non-recurring costs, expenses rose 2% from the previous quarter and 3% from a year ago.

Consumer Banking / Wealth Management. Full-year Consumer Banking and Wealth Management profit before allowances rose 59% from a year ago to $4.55 billion as total income rose 35% to $8.96 billion. The growth was led by loans and deposits income which grew 51% to $6.05 billion from higher net interest margin and volumes. Investment product income increased 18% to $2.14 billion.

Assets under management rose 23% to a new high of $365 billion, underpinned by strong net new money inflows and the consolidation of Citi Taiwan. Singapore-dollar savings deposits declined 7% or $10 billion to $128 billion, which was around half the pace compared to the previous year.

The regional Consumer Banking and Wealth Management customer base increased 6 million to 18 million from Citi Taiwan and expanded ecosystem partnerships across the region.

Institutional Banking. Full-year Institutional Banking income rose 22% from a year ago to $9.36 billion. The growth was led by a 73% growth in cash management, which was partially offset by lower loans and trade finance income.

GTS deposits declined 3% or $7 billion to $190 billion due to unattractive pricing.

Treasury Markets. Fourth-quarter treasury customer income grew 18% from a year ago to $440 million on higher sales to wealth management customers as market sentiment improved. It was 8% lower than the previous quarter due to seasonally slower activity. For the full year, treasury customer income rose 13% to a record $1.85 billion led by wealth management product sales.

Treasury Markets trading income, which comprises both net interest income and non-interest income, was $113 million for the fourth quarter, 45% lower than a year ago and 32% lower than the previous quarter. For the full year, it declined 38% to $725 million. The weaker performance reflects the impact of higher funding costs.

Hong Kong. Hong Kong's full-year income and net profit were at record highs. Net profit rose 12% in constant-currency terms to $1.58 billion as total income increased 13% to $3.21 billion.

Net interest income grew 21% to $2.17 billion as net interest margin increased 44 basis points to 1.91%. Loans declined 7% in constant-currency terms due to a high interest rate environment and the continued rate differential with China. Total deposits were largely stable on a year-on-year basis.

Net fee income was little changed at $664 million as higher income from investment product and bancassurance sales were offset by lower loan-related and trade finance fees. Other non-interest income fell 3% to $383 million due to lower trading income.

Expenses rose 8% to $1.20 billion led by higher staff costs. The cost-income ratio improved two percentage points from a year ago to 37%.

Total allowances increased to $138 million from $56 million a year ago due to higher specific allowances and the impact of a general allowance write-back in the previous year.

Non-performing assets. Asset quality continued to be resilient in the fourth quarter.

Non-performing assets fell 5% from the previous quarter to $5.06 billion. New NPA formation remained low and was offset by repayments and write-offs during the quarter. The NPL ratio improved from 1.2% in the previous quarter to 1.1%.

Specific allowances. Fourth-quarter specific allowances remained low at $139 million or 11 basis points of loans.

For the full year, specific allowances amounted to $513 million or 11 basis points of loans, slightly above the eight basis points a year ago and remaining below the cycle average.

General allowances. Total allowance reserves stood at $6.48 billion with $2.58 billion in specific allowance reserves and $3.90 billion in general allowance reserves. Modelled overlays were stable and stood at $2.2 billion.

Allowance coverage rose to 128% and at 226% after considering collateral.

Capital adequacy. The CET1 ratio rose 0.5 percentage points from the previous quarter to 14.6%. The increase was due to strong profit accretion, gains from FVOCI assets and a decline in risk-weighted assets. The leverage ratio of 6.6% was more than twice the regulatory minimum of 3%.

Summary. In summary, we achieved full-year results with total income, net profit and ROE all at new highs. The franchise and digital transformations carried out over the past decade have reaped substantial benefits in a higher interest rate environment.

The stronger profitability has enabled us to step up capital returns to shareholders through a bonus issue as well as make an inaugural contribution of $100 million as part of a ten-year CSR commitment of up to $1 billion.

While interest rates are expected to soften and geopolitical tensions persist, our franchise strength will put us in a good stead to sustain our performance in the coming year.

Piyush Gupta Thanks, Sok Hui.

Operating trends sustained in 4Q. The fourth quarter was solid. We had income growth of 9%, which was broad-based. Interest income continued to increase from the previous year. But the big thing was fees, which were up 31%, and other non-interest income, which is mostly from treasury sales, which was up 22%. Even excluding Citi Taiwan, the underlying momentum in fees and treasury sales was strong. By the way, the momentum followed through to January 2024 as well.

Loans were flattish. Non-trade corporate loans were growing in some segments, but there were still faster repayments from high interest rates and a shift to China onshore. The good news is that, after several quarters, we had $1 billion growth in trade loans as pricing improved, especially in energy-related trades from Korea and India.

NIM came off to 2.13%, a decline of six basis points from 2.19% in the third quarter. We had expected four basis points of that – the exit NIM in the third quarter was already 2.15%. The third quarter had been the first time during this rate cycle when interest did not go up while Casa repricing continued. However, we also took a conscious decision to put on $30 billion of fixed-rate assets at the end of the third quarter and in the fourth quarter to protect against lower interest rates going forward. This decision cost us a couple of basis points above what we had guided.

The good news was that NIM was flat at 2.13% through the fourth quarter, so we did not see a further ongoing erosion. The exit NIM in December was 2.13%. The reason was that Casa repricing eased during the quarter. Casa repricing, which had amounted to $90 billion in 2022, slowed to $40 billion in 2023 – below the $45 billion-50 billion we had expected – of which there was only $2 billion in the fourth quarter.

Fee income growth excluding Taiwan of 17% was very strong. Wealth Management grew 41%; excluding Citi Taiwan it was 24% as customers put money back to work, with the momentum continuing into January. The ratio of investments to total AUMs further improved. Excluding Citi Taiwan, cards grew about 9% as overall spending, including for travel, continued to increase. Overall treasury sales grew 18%. All of the non-interest income lines of business were robust.

Our costs were a tad higher than expected because of Citi Taiwan and non-recurring costs for technology. The underlying expense growth was 10% for the full year and 3% for the quarter.

Asset quality continued to be good. We are not seeing any systemic stress. There is a bit of pick-up in unsecured consumer lending but, as I have said before, the book is not large to begin with, and one-third of it is in Singapore. Moreover, delinquency rates are still lower than pre-Covid.

Momentum is coming back, especially fees. That is the principal takeaway from this quarter.

2024 outlook. The IMF recently upped its global growth forecast. China is still challenging and North Asia growth is still subdued. There is still geopolitical risk. But on the whole, the economic environment is a bit better than I had forecast three months ago. With that backdrop, I can confirm the guidance we gave earlier that we should be able to sustain our profits this year at around $10 billion, notwithstanding some headwinds from interest rates.

We are still forecasting net interest income to be around 2023 levels on the assumption of five rate cuts from June-July to year-end. The full-year impact of Citi Taiwan will provide added support. Our January NIM was 2.13%, unchanged from the 2023 exit NIM. For the full year, we expect NIM to be slightly below 2.13%. If NIM drops more than expected because rate cuts start earlier or are sharper, we would be able to make it up from a faster pick-up in loan growth, which we are forecasting to be in the low-single digits.

Consistent with guidance given previously, we expect double-digit fee income growth with wealth management and cards both looking strong. We had $24 billion of net new money inflows in 2022 and another $24 billion in 2023. As they are converted to investments, it will help fee income.

Our cost-to-income ratio will be in the low 40% range. We had guided for expense growth to be in the high-single digits, due partly to Citi Taiwan.

We are assuming specific allowances to be at the cycle average of 17-20 basis points, although we are not seeing it. Our non-performing assets declined during the quarter. We do not have challenges in any particular sector or geography. So I am just being a little cautious in guiding for 17-20 basis points due to the high interest rate environment. We also have a buffer from the general allowances we built. Sok Hui just said we have $2.2 billion in GP overlays over what the models require.

Putting all of that together, we think we can achieve an ROE of 15-17%.

<u>Distributing our earnings to our stakeholders.</u> Sok Hui elaborated on how much we are giving out in dividends. The bonus issue increases dividends by a further 10%, so instead of $0.54 per share, it is closer to $0.59 with the bonus.

We recognise we still have a lot of capital. A bonus issue locks in and provides the certainty of an increased payout, but it does not mean the end of our distribution to shareholders. We will continue to maintain a baseline $0.24 annual dividend per share increment over the enlarged post-bonus share base. I think we could also do special dividends or other forms of capital returns. We will have greater clarity in the middle of the year when there is better line of sight on interest rates and, hopefully, when the technology issues are behind us.

I am also pleased to kick off the CSR commitment we made of up to $1 billion over 10 years with the first tranche amounting to $100 million from this year's earnings.

The National Wages Council in Singapore made a recommendation to help junior staff cope with the high cost of living, so I am also happy we are giving a one-time bonus covering half our headcount.

<u>Good progress on executing tech resiliency roadmap.</u> We started the technology uplift programme in May 2023 covering four areas – the change management process, the system resiliency and recovery process, the incident management process, and tech governance and oversight.

On tech risk governance and oversight, we said we would take accountability at senior management, beginning with me. Establishing accountability at the top is a good starting place for taking accountability. We therefore decided to take a collective variable pay cut of 21% despite the record profit.

As I had guided before, we have allocated up to $80 million for resiliency, of which have spent $25 million so far. Once we complete the programme, we should be seeing greater service reliability, which means fewer incidents and less downtime. Another thing we are focused on is making sure there are alternate channels, especially for payments and account inquiries, when there is a disruption. Today, we sometimes have shared channels, so we make sure key services have alternate ones. Finally, if there is a problem, we should be able to fully recovery more quickly.

These are the customer outcome we hope to achieve from the whole set of actions we are taking. What are these actions?

The first set of actions is on governance. We are in the final stages of appointing a CIO. We are down to a couple of people we are looking at and hope to make an appointment soon, although it might still take a few months for the person to come onboard given notice periods. We have hired a couple of senior people, including a new head of tech risk and another to run risk audit, to beef up the second- and third-line tech leadership.

We are also focusing on risk-control mindset, behaviours and culture, putting 5,000 people through rigorous training. The aim is to minimise human error by focusing on environmental and cultural factors.

The second set of actions is on change management. Because we have a micro-services architecture, we have to be thoughtful about making any changes to any one of the micro services, whether they are patch upgrades, security upgrades, or upgrades to improve functionality. The aim is to make change management a lot more robust. We are putting in more automated tools, such as AI, across the change management pathway, so there will be a lot more gates. Before any program is moved into production, it will have to go through a lot more gates and a lot more automated checking to ensure that its quality before going into production is sound. These steps will minimise what I call butterfly effects, when a change shows up as a problem elsewhere in the system.

Another aspect we are enhancing is vendor management, especially for critical systems such as the customer access authentication system, which gave us trouble last time. This means more regular interaction with the vendors, better line of sight to the vendors' own production pathways, and more active dialogue to understand exactly the software changes they are making, so we know what the impact on us might be.

We are also creating a new production-assurance testing environment that is near-live, compared to the past when we tested new programs around the periphery. This process should be ready in the next couple of months. With all of this, I am hopeful the entire change management process will be a lot more robust.

The third set of actions is on system resiliency and recovery, which we are doing a bunch of things on. Let me call out two. The first one is regarding the active-active configuration we currently have. This means that for every system, we have at least two sub-systems that are concurrently processing transactions so that if one goes down, the other should be able to take over. One of our learnings is that, in some cases, replication causes both the active-active sub-systems to be impacted. We have now reconfigured critical systems to put a passive hot standby on top of the active-active. It is something that should be completed over the next couple of months.

The second one is eliminating single points of failure. Take, for example, our mobile banking and our payments app PayLah. Somewhere at the back end, there is one machine that services both, which creates the risk of having both services going down at the same time. We are now decoupling them, making the service for mobile banking completely separate from PayLah. If one goes down, the other would still continue functioning. This eliminates single points of failure. We think we will be able to get this done for critical services in the first quarter.

The fourth set of actions is on incident management. We used to have several command centres – for the corporate business, the consumer business, the markets. It could be a little clunky sometimes to coordinate between command centres, so we merged them and gave them common instrumentation, observability tools, and a better protocol to quicken the escalation process. We are also improving our real-time monitoring infrastructure by increasing the number of variables being monitored and having more analytics tools in order to pick up incidents more speedily.

At end-January, about half of these sets of actions were completed. By end-March, I expect about 90% of them to be. At this point in time, I am quite confident we will have demonstrable outcomes

for customers to see. Our commitment is to continue dedicating resources for systems resilience into the future.

Why don't I stop and take questions.

Goola Warden (The Edge) I have a couple of questions. First, do you have any loans to commercial real estate exposure in Hong Kong, China, the US and Europe or Singapore? Have there been valuation write-downs?

Second, and more broadly, how would the higher distributions from dividends and CSR impact your growth plans into the future? Are you still looking to expand regionally? Are there any IPO plans for India? At one point, you were talking about the possibility of listing one of your digital businesses such as DBS Remit.

Piyush Gupta Of course we have exposure to commercial real estate, which is about $90 billion, but that includes a big chunk of mixed projects comprising retail, residential and office.

Singapore accounts for $52 billion or 60% of the total commercial real estate exposure, and the market is quite robust.

Hong Kong accounts for $18 billion or 20%, down from $19 billion last quarter, with $13 billion mixed use and the remaining $5 billion equally split between retail and office. Our Hong Kong commercial real estate is to top-tier names. We do not really go beyond them. As such, we have no concerns about the Hong Kong portfolio. The average loan-to-value for our portfolio is below 60%, giving us a lot of cushion. More importantly, the financials of the big Hong Kong names are solid. We carry out valuations every year and more frequently if needed. We have not had to take any valuation adjustments.

So Singapore and Hong Kong account for 80% of our commercial real estate portfolio. The US accounts for $1 billion, which is to Singapore names and so is not consequential. We have another $8 billion collectively in Australia and Europe including the UK. They too are broadly to Singapore or Asian names that we bank based on their corporate balance sheets.

For China, our total real estate exposure is $14 billion, down from $16 billion we had previously said. The commercial real estate component is $7 billion, most of which is mixed. Of the $14 billion, $5 billion-$6 billion is to state-owned enterprises, $4 billion to foreign companies such as CapitaLand equivalents, and $4 billion equally split between Reits and privately-owned companies. Like everybody else, we have been stress testing our commercial real estate book, but we are not seeing any problems with it.

On your second question, higher dividends do not constrain our growth. We have got the reverse problem because we have too much capital with CET-1 at 14.6%. With the Basel IV regime, which Sok Hui will elaborate on, we have even more excess capital during the transitional period. Frankly, we have enough to do more M&A if we want and still have the capacity to grow. At this point in time, India is the only country we are putting new capital in. Everywhere else is self-sufficient and generating capital.

Sok Hui Chng We guided previously that under Basel IV, which will come into effect on 1 July 2024, our CET-1 will go up by two percentage points on a transitional basis, which is the number required for regulatory compliance.

Piyush Gupta We have not IPO-ed any overseas operations before. I do not see anything happening until there is sufficient scale to make it worth doing so. We currently make $150 million-$200 million a year in India. If in five years we make $1 billion then it becomes interesting to do something.

Likewise, the tech winter means it is not worth thinking about a tech listing now. We continue to grow the businesses, particularly the money transfer business, DBS Remit, you mentioned, which continues to be very attractive. I think we are now close to $200 million in that business and we are going to continue to double down on it. When it has scale and it is worth unbundling it from the bank, it is something that we would consider.

Goola Warden Is it mainly retail or is it corporate?

Piyush Gupta There are three parts. The first is retail, which is growing, principally because a lot more people are shopping online. Previously, the bulk of the consumer payments were transfers between friends and family. The second is SME. Many micro SMEs are transacting online. The third is the indirect business. We are white labelling our capabilities for other banks to take to their consumer and SME customers.

Sheryl Lee (Bloomberg) My question is about Chinese capital flows to Singapore. Is Singapore still attractive to the Chinese after the anti-money laundering case and amid stricter onboarding and family office obligations?

Piyush Gupta I think Singapore continues to be attractive not just for Chinese but others around the world because we have rule of law, the English language, a trusted regime, and extremely good professional advisers to put money to work. Nothing has changed.

I said we had $24 billion of inflows in 2022. We had another $24 billion in 2023, with $6 billion in the fourth quarter. So the flows have not changed since the scandal broke out. And the flows have been intact so far this year.

Like everybody else, we continue to tighten AML, KYC and onboarding controls. But I have also said before that the effort is like finding needles in haystacks. Given the total size of clients and money, there will always be people who will get through the system. My analogy is that with police forces there should then be no crime in every country, but obviously it is not possible to have zero crime. We are going to keep tightening but Singapore's regime is already quite robust.

Felicia Tan (The Edge) How did you arrive at the senior management and CEO variable compensation cuts of 21% and 30% for the tech issues.

Piyush Gupta You're asking the wrong person because I do not determine my own compensation. It is determined by the Board. We have a robust balanced-scorecard process. The whole management team spends around four weeks and 20 meetings a year on it. We set up very tight measurement rubrics for everything – regarding customers, employees, transformation – and agree with the Board upfront on what we need to do to achieve and outperform. Frankly, other than

the tech incidence, we had a blowout year – not just the profit, but every other part of the scorecard was just extraordinarily strong. The tech issues obviously had huge negatives. Balancing everything, I discussed with the management team and we said we should take accountability.

Angela Tan (Straits Times) Can I get more details regarding the $80 million cost to implement the technology uplift? What would the bulk of the $80 million be used on? Second, because the issues are caused by third-party contractors, are there plans to move such capability in-house?

Piyush Gupta The $80 million covers a mix of things. We are paying consultants to help us, we are reallocating resources internally, and there is new hardware. For example, we bought a new mainframe to supplement our capacity for just-in-case. It should come by March.

While there are vendor issues, we have had our own software issues as well. We already insource a lot more than other organisations. While others are mostly on outsourced public cloud, we run a virtual private cloud. I think the mix we now have between internal and external is quite good. At the same time, as we continue with building a modern tech stack, it is highly unlikely and unreasonable to do everything ourselves. Take generative AI. What AWS and Google have achieved is hard for others to replicate, so we are much better off leveraging their services. I do not think the relative mix between internal and external will change materially.

Dexter Low (Bloomberg) What was the thinking behind the calculations for senior management's variable pay cut? Can you also give us some colour behind the process of selling the shophouse collateral related to the AML case? How many shophouses are you planning to sell? What is your outlook on China – do you think things will get a bit worse? And on liquidity, are you exploring things like you did in the past, like lending more money in MAS?

Piyush Gupta On the pay cut, I have already explained it just now.

On the shophouses related to the AML case, our loan-to-values are very low. Just like in normal cases, when there are repayment issues, we foreclose the property and sell it to recover our loan. That is exactly what we are doing.

I think China is still challenged. I think growth rates this year will be between 4% and 5%, compared to 5%-plus last year. But I also think they are trying to put a floor under the problem, so I do not expect a systemic financial risk or a major issue with our portfolio. At the same time, we have been careful not to be very aggressive in our China growth because of the overall environment.

We are still very liquid for Singapore dollars. For foreign currencies, we have been able to lower our cost of funding by getting fixed deposits to replace more expensive wholesale funding such as commercial paper and MTN.

Dexter Low Are you actively considering any M&A?

Piyush Gupta We have said before we are not actively looking at any M&A right now, but we are opportunistic. If we find a right bolt-on M&A that helps boost our business, we will look at it. But that is not a use of liquidity. Liquidity can be used to make loans and put on assets. As I said, at the end of the third quarter and in the fourth quarter, we put on a lot of fixed rate assets and built up duration in the book with a view that rates are going to come off.

Dexter Low On the AML exposure, are you expecting to recover most of the exposure?

Piyush Gupta We were being conservative when we decided to provide for it. But the loan-to-values are low and if we can sell the properties, we should recover the provisions.

Edna Koh Thank you, everyone. See you next quarter.